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July 17, 1996

**VIA HAND DELIVERY**

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Room 222  
Washington, D.C. 20554

RECEIVED

JUL 17 1996

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Re: Ex Parte Presentations in CS Docket No. 96-46

Dear Mr. Caton:

Pursuant to Section 1.1206(a) of the Commission's Rules, 47 C.F.R. § 1.1206(a) (1995), this is to provide an original and one copy of a notice of *ex parte* presentations made in the above-referenced rulemaking proceedings on behalf of Residential Communications Network, Inc. ("RCN") and MFS Communications Company, Inc. ("MFS"). Mr. Scott Burnside of RCN, Karen M. Eisenhower, Esq. and the undersigned met with Commission officials in the Cable Services Bureau and the Competition Division of the General Counsel's Office to discuss issues and positions raised in the filings made by RCN and MFS in the above-referenced proceeding. Copies of the written materials provided to the meeting participants are attached hereto for the public record.

Should any further information be required with respect to this *ex parte* notice, please contact the undersigned.

Respectfully submitted,

  
Jean L. Kiddoo

Enclosures

cc: Cable Services Bureau Participants (Meredith Jones, John Logan, Gary Laden, JoAnn Lucanik, Rick Chesson, Larry Walke, Meryl Icove, Dave Roberts, Joy Roberson)  
Competition Division Participants (James Olson, Marty Stern, George Ford, Jeff Lanning, Nicole Batten)

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SUNDAY, JUNE 30, 1996

# Firm offers cable, phone and Internet in 1 package

By Bruce Muhl  
GLOBE STAFF

For the 90 condominium owners at 416 Marlborough St., the benefits of telecommunications competition have just arrived.

In a forerunner of what the future may hold for many of us, a company called Residential Communications Network is offering cut-rate prices and one-stop shopping for cable television, Internet access and local and long-distance telephone service.

RCN undercuts Nynex rates by at least 15 percent and is currently offering a host of services like call forwarding and call waiting for free. It beats Sprint's long-distance rates by several cents a minute, shaves \$6 off Cablevision of Boston's expanded basic cable service and provides unlimited Internet access for \$19.95 a month.

"We think it offers a real value to the residents," said Nancy Benza, who works for the Finch Group, which manages the Marlborough street building. "It brings a building that's 100 years old into the 21st century and it increases the value of the units."

But even though RCN is barely up and running it is already under attack. Competitors say RCN's guerrilla-style marketing approach of targeting selected customers gives

RCN, Page 32

## Firm offers cable, phone, Internet in 1 package

Continued from Page 29

it an unfair advantage. Cablevision has accused RCN in court of illegally operating a cable company without a license.

"In order to practice medicine, you must be a licensed physician. Consumers should be very wary of any company offering to sell them cable service before it has received any required licenses," said P.A. Carr, director of public affairs for Cablevision.

David C. McCourt, RCN's 39-year old chief executive, said his company is complying with all state and federal laws. He said his competitors are attacking him because RCN is challenging their monopolies.

Yet RCN is operating in what appears to be a murky area. The telecommunications field is changing fast, with many of the rules of competition being developed on the fly. Regulatory wires are getting crossed as cable operators move toward offering phone service and phone companies move into the video field.

RCN is stretching these regulatory boundaries more than anyone else by offering customers voice, video and data services over its high-quality fiber optic lines. "Everybody's talking about doing it, but nobody's doing it except us," McCourt said.

While RCN is an unfamiliar name to consumers, it actually has strong credentials in the telecommunications field. McCourt, who helped build Cablevision's network a decade ago and has sold telecommunications services here and in

England, owns 10 percent of the company. The rest is controlled by the giant contracting firm Peter Kiewit Sons Inc. of Omaha.

Several years ago Kiewit formed a company called MFS Communications Co. to build fiber optic networks in urban areas to provide telephone service to large companies. The company has since sold shares to the public and is generating more than \$500 million in annual sales.

RCN is trying to adapt the same concept to the residential community, leasing the trunk lines in Boston owned by MFS and connecting them to apartment and condo buildings in the Back Bay. McCourt says RCN will later expand to the rest of Boston and the suburbs.

RCN's local phone service mimics the calling plans and services offered by Nynex but is priced 15 percent less. At least initially, RCN is offering customers touch tone service, call waiting, call forwarding, three-way calling and speed calling - a package that costs Nynex customers \$11.98 a month - for free.

Long-distance service is provided at fixed rates of 20 cents a minute weekdays from 7 a.m. to 7 p.m., and 9 cents a minute at all other times. By comparison, Sprint's rates are 25 cents a minute weekdays during the day and 10 cents a minute at night and on weekends.

Anyone switching their phone service to RCN cannot take their current phone number with them; they must be assigned a new one. They also can't buy RCN's local service and use another company for long distance, although McCourt said that rule may change.

RCN's expanded basic cable ser-

vice is priced at \$24.95, which compares to \$30.67 for Cablevision's equivalent package. Premium channels are priced about 5 percent less than Cablevision's rates, McCourt said. RCN's Internet access will be available Aug. 1, McCourt said.

Competitors say RCN is able to provide these lower rates because it basically cream-skims the market, picking off the customers it wants and leaving behind the customers that are more costly to reach.

Carr said Cablevision could lower its prices if it didn't have to provide local programming, pay \$1.8 million a year in franchise fees to the city of Boston, wire and provide service to all of the city's schools and municipal buildings at no charge and offer service to all neighborhoods of the city.

"There can't be one set of rules for one competitor and no rules whatsoever for someone else," Carr said.

Nynex spokesman John Johnson said consumers should pay attention to quality of service as well as price in selecting a company. "We don't know what kind of quality of service they will provide," Johnson said, referring to RCN. "It's always going to be buyer beware when you change providers."

McCourt said it would be unfair for regulators to saddle a startup company like his with the same burdens as an established monopoly. If they did, he said, there would never be any real competition.

"The stuff that the other guy has to do that I don't have to do - that's what you get with being a protected monopoly," he said.

Weight loss medications. Local health insurers are starting to issue guidelines for the use of hot new weight-loss medications, but the rules vary from plan to plan.

Harvard Pilgrim Health Care said it will pay for the new drug Redux as well as for fen-phen, the abbreviation for the drug combination fenfluramine and phentermine. Blue Cross Blue Shield says it will only pay for Redux. Both health plans require patients to meet certain weight specifications and participate in weight reduction programs.

Another option is to use one of the weight-loss centers springing up around the city that specialize in offering customized treatment programs for patients. The cost can approach \$1,000 over the course of a year and health insurance generally won't cover it, but center officials say it may be worth it.

"Obesity is not an easy disease to treat," said Dr. Edward Mascioli, who runs the Boston Center of Nutrition in Chestnut Hill. He notes that patients would not hesitate to consult a cardiologist if they had a heart problem.

One cautionary note: The Harvard Pilgrim guidelines say FDA calculations indicate the risk of potentially lethal pulmonary hypertension from the use of weight-loss drugs is 1 in 109,000 for patients using the drugs longer than three months, compared to 1 in 1 million for the general population.

If you have a consumer tip, call 474-2310, e-mail mohl@globe.com or write Bruce Muhl at PO Box 2378, Boston, MA 02107-2378

# THE CHRISTIAN SCIENCE MONITOR

Tuesday, July 2, 1996

## Apartment Dwellers First to Get All-in-One Telecommunications

**W**ANT to see the future of telecommunications? Rent an apartment.

That's where the much-hyped convergence of television, telephones, and the Internet is taking place first. And it's not being done by industry giants. A handful of small, virtually unknown companies is taking advantage of several technological trends to meet a need on their bigger competitors' doorstep: AT&T and TCI. Meet US Online and Peter Kiewit Sons' Inc.

It's not hard to hook up apartment complexes and condominiums to the future. By switching a telephone switch, cable-television head, and a few computers in the basement, these companies are ready to roll. They already know who all their potential customers are, so marketing is easy. By hooking up several large complexes in the same city, they can spread their costs over thousands of tenants.

In Boston, a Peter Kiewit Sons' subsidiary, RCN Corp., is marketing packages of telecommunications services to apartment dwellers and condominium owners. RCN acts as a kind of middleman. It buys local and long-distance telephone services from MFS Communications. It also buys cable-TV service wholesale. Then it resells the packages to tenants.

Tenants have a choice of sitting with their current telephone and cable companies or switching to RCN. The advantage of the latter is that all services, come from a single company, often at a slightly lower price, and with more control. RCN, for example, gives many same telephone services that the local company charges for, such as call forwarding, call-waiting, and speed-calling. It also offers Internet access.

The company saves money because the same fiber-optic cable and computers that carry and route all the telephone signals also transmit the cable-TV video and sound. That's what convergence is all about. All the telecommunications signals are being transmitted into the computer language of 1s and 0s, so a single wire, antenna, or satellite dish can carry them all.



By switching a telephone switch, cable-television head, and a few computers in the basement, new companies can provide all a resident's electronic needs.

Of course, big telecommunications companies are scrambling to do the same thing. Spurred by new legislation, America's cable and telephone companies want to play in each other's sandbox. But doing this requires massive upgrades of their networks.

By buying these services wholesale and then bundling them together, the smaller companies are proving to be more nimble. US Online, for example, is only a year old but is already selling telecommunications packages to apartment dwellers in Dallas, San Antonio, and Austin, Texas, as well as Chicago, and expanding to Denver and Atlanta. So far, some 10,000 apartments are wired up or are being built to be hooked up to its services. Within a year, the company expects to have 40,000 units signed up.

Although the offerings are priced slightly lower than what the majors would otherwise pay, the company's real focus is on service. "This is about making the customer happy," says John Orinick, a Boston-based entrepreneur and part-owner of US Online. Other residents who have tried the same thing — not to mention the cable and local-phone companies that until recently monopolized the business — have often burned off customers because of their lack of service.

The same residents could also serve running homes and colleges campuses, says Bill Davidson, a partner with Deloitte & Touche Consulting Group in Atlanta. "When you add all those things up, it's a matter of significant size." By the year 2000, residents and those operating their own locally based networks will grab 15 percent of local-telephone service and nearly 35 percent of the long-distance phone business, he forecasts.

But consumers won't see that. They'll see what apartment dwellers are beginning to experience: a single company filling all their telecommunications needs.

Send comments to [lbristie@tc.netcom.com](mailto:lbristie@tc.netcom.com)

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# The New York Times

**Late Edition**  
New York: Today, sunny, not as warm, less humid. High 85. Tonight, cooler. Low 65. Tomorrow, sunshine with high clouds. High 83. Yesterday, High 85, Low 70. Details, page C3.

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NEW YORK, WEDNESDAY, JULY 10, 1996

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"All the News  
That's Fit to Print"

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Liberty Cable, a small Manhattan television service, is planning to go head-to-head against Nynex in offering residential telephone service in New York City. Page D1

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### Melvin Bell Dies

The lawyer who pioneered huge settlements in injury cases and defended Jack Ruby, the killer of Lee Harvey Oswald, was 88. Page D21.

**HARRY FIRST HALF CENTURY AMONG LEON**  
Harry Leon Allen, Brooklyn, Tenn. Man, Tush and Bond. Why is he? Kidding. . . AIN'T.

## Cable Concern Plans a Fight Against Nynex

### Broad Phone Packages Set for New York City

By MARK LANDLER

For five years, Liberty Cable and Time Warner Inc. have waged a David-and-Goliath battle for cable-television customers in Manhattan. Now, David is taking on an even greater Goliath.

The new owner of Liberty Cable, the RCN Corporation, plans to announce today that it will offer residential telephone service in New York City — challenging the Nynex Corporation. Under the RCN brand name, the company also plans to offer expanded cable service and access to the Internet.

When RCN opens its sales office in midtown Manhattan today, it will mark the first time that any company has offered New Yorkers television, telephone and data services in a single package. Nynex and Time Warner have each announced plans to offer such one-stop shopping, but neither has done so yet.

"We're going into the markets with the largest revenues in the country but the poorest service," said David C. McCourt, the chief executive of RCN, which stands for Residential Communication Networks. "Our strategy is to be a bit cheaper, but a lot better."

Mr. McCourt said RCN would offer cable and telephone service in Boston later this summer and in several other Northeastern cities in early 1997. The company acquired 80 percent of Liberty Cable in April as a vehicle for its drive into the New York market. And it plans to spend \$200 million over the next 18 months to build a fiber optic network capable of carrying television and telephone traffic.

In New York, Mr. McCourt asserted, RCN's monthly rates for basic cable and phone service would be 15 percent cheaper than those of Time Warner and Nynex. In addition, RCN plans to offer services like call waiting and call forwarding at no extra charge to customers who sign up early.

For all that, RCN will still face an uphill struggle against Nynex. The regional Bell operating company has three million residential customers in New York City and its copper wires snake into nearly every apartment building in the city.

Nor has Liberty Cable made much of a

Continued on Page D6

# Business Day

D1

WEDNESDAY, JULY 10, 1996

The New York Times

## Cable Company Plans to Fight Nynex in Local Phone Market

Continued From First Business Page

dent in Time Warner's huge cable franchise. Despite its scrappy marketing and a shrewd strategy of focusing on large, affluent apartment buildings, Liberty has signed up just 34,000 customers. Time Warner, by contrast, has 1.2 million subscribers throughout the five boroughs.

Still, RCN could be a far more serious threat than Liberty Cable. The company is backed by Peter Kiewit Sons Inc., a privately held industrial conglomerate based in Omaha, that has estimated revenues of \$3 billion.

And unlike Liberty Cable, which continues to use cumbersome microwave technology to beam its programming to satellite receivers on the roofs of apartment buildings, RCN plans to transmit its video and telephone service over fiber optic strands that run into the basements of the buildings.

To do that, Mr. McCourt said RCN would lease excess capacity on a fiber optic network built and owned by the MFS Communications Company, a telephone company that offers service to business customers in New York and 41 other American cities. MFS, like RCN, is backed by Kiewit.

Through MFS, RCN has already obtained regulatory approval to construct its network and deliver video programming over it.

Executives at Nynex and Time Warner, who have tended to dismiss Liberty Cable as a mite rather than a menace, said RCN's strategy and financial muscle could make it a

more robust competitor.

"On the Richter scale, it's not a 10," said Brian Lane, the group vice president of marketing at Nynex. "But it's a 3 or a 4."

Richard C. Aurelio, the president of Time Warner Cable's New York City franchise, said that "\$300 million is a significant amount of money to spend if you're concentrating on New York."

Mr. Aurelio noted that Time Warner planned to spend \$300 million over the next four years to upgrade its coaxial cable network to carry telephone and video services. But the company has not set a date for entering the local telephone market in New York City.

"Announcing new services is fine," he added, "but first, you've got to build the network to carry them."

Mr. McCourt said RCN would be in a position almost immediately to string fiber optic cable to the 200 apartment buildings that currently receive cable service from Liberty. He said RCN had won approval from landlords to wire buildings with 35,000 more potential customers.

Other buildings, however, face a longer wait because RCN would have to obtain approval for wiring and then do the actual construction.

Indeed, at the moment, RCN is offering phone service in just four buildings, one of which happens to be Mr. McCourt's.

RCN's plan is to appeal first to customers who already receive Liberty Cable. To promote the service, Mr. McCourt has retained Peter O. Price, the former publisher of The New York Post, who ran Liberty Cable for the Milstein family, which

still owns a 20 percent stake. (Mr. Price and the Milsteins are suing Time Warner, accusing the company of anti-competitive business practices. But Mr. McCourt said that RCN was not a party to that lawsuit).

Yesterday, Mr. Price said he would use much the same guerrilla marketing approach to sell RCN's services that he used to promote Liberty. That includes tiny advertisements that have run almost daily

*An upstart company, with new backing, picks another fight.*

at the bottom of the front page of The New York Times.

In the ads, Liberty Cable gives the address of a building that signed up for its service and then proclaims that the building "has been liberated from the cable monopoly."

Mr. Price said that RCN's fiber optic transmission would be easier to sell than Liberty Cable's microwave method, which required apartment buildings to install satellite receivers on their roofs. In both cases, the individual apartments receive the service via coaxial cable. To offer phone service, RCN plans to string copper wire to individual apartments or lease capacity on the existing copper network owned by Nynex.

"I used to walk on rooftops," Mr. Price said in a telephone interview

yesterday from aboard a chartered yacht in the Greek Islands, where he was on vacation. "Now, I'll be walking through basements."

Mr. Price will be able to offer customers some attractive rates in the early going. RCN said its average monthly rate for standard cable service would be \$34.95, compared with \$38.18 for Time Warner. The company will offer touch-tone phone service for \$8.95, versus \$10.10 for Nynex.

But Nynex and Time Warner seem likely to fight back. Mr. Lane of Nynex said the company was negotiating a partnership with an undisclosed company that would soon enable it to offer a basket of telephone and television services. Time Warner also intends to offer telephone service and package rates.

None of that seems to faze Mr. McCourt. Two days before he was scheduled to introduce his service, he proudly offered a tour of RCN's glittering showroom, which covers 10,000 square feet in an office tower at 1133 Avenue of the Americas.

The centerpiece of the room is RCN's Network Operations Center, which is housed behind glass at the street level. There, at a control panel that looks like the bridge of a spacecraft, the company's engineers monitor RCN's network and can locate any glitches in service.

Mr. McCourt likened the open design to that of a fast-food restaurant with no wall separating the front counter from the kitchen. "We want people to see exactly what they're buying," he said. "That way, they'll know we're giving them hamburgers and not horse meat."

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# DAILY NEWS

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NEW YORK'S HOMETOWN NEWSPAPER

Thursday, July 11, 1996

## RCN's high-tech plans may lose power in city

By PETER GRANT

Daily News Business Writer

A fledgling telecommunications company beat NYNEX and Time Warner yesterday in the race to be the first business to offer New Yorkers cable television, telephone and Internet access service in one package.

But the city undercuts Omaha, Neb.-based RCN Corp.'s rollout by warning that it lacked the franchise license to offer the digital picture and 105 channels it is touting.

Meanwhile, two other telephone companies, Frontier Corp. and USN Communications, announced yesterday they will begin to offer businesses local service late next year.

The news was just the latest sign of the growing consumer benefits -- more services and lower prices -- from the fierce competition breaking out in the cable TV and telephone businesses.

RCN, which is being bankrolled by the \$3 billion conglomerate Peter Kiewit Sons, has gone so far as opening a dazzling street-level showroom at Sixth Ave. and 43d St. — to display its Internet, computer, telephone and television selections.

"Everyone else has talked about putting it all together," David McCourt, RCN's chief executive, said yesterday. "We're the first to do it."

RCN is offering these products first in parts of Manhattan through a network of fiber optic cable that already has been installed by MFS Communications, which offers telephone services to businesses.

RCN has begun to wire apartment buildings that are accessible to the 97-mile network, which MFS is rapidly expanding. By the end of the year, the company hopes to be adding about 500 subscribers a week.

But Telecommunications Commissioner Ralph Balzano said yesterday that RCN must obtain a city franchise before it can offer cable through the



MELATYNE GOODMAN

**MULTIPLICITY:** David McCourt, CEO of RCN, in high-tech area of Sixth Avenue headquarters with television program that shows him talking about company's big plans.

MFS network, a process that can take up to a year.

RCN officials claimed, however, that the recent change in federal telecommunications law exempts their kind of service from city franchise rules.

"I think the city will understand that it's in everybody's interest to have lower rates and better service," McCourt said.

Because fiber optic cable has much higher capacity than other wires, RCN can provide more channels and better quality television pictures, as well as a faster connection to the Internet.

RCN also plans to offer its services at lower prices. McCourt estimated that RCN would sell telephone services for 15% less than NYNEX. For example, a \$10 monthly local calling bill for NYNEX customers would cost \$8.50 using RCN, he said.

COMPARING RATES		RCN	
		NYNEX	RCN
■ Call Waiting (A)		\$5.15	0
■ Three Way Calling (C)		\$4.15	0
■ Local monthly calling		\$10	\$8.50
■ Long distance		\$10	\$8.50

\*Including FCC charge and Touchtone  
Local and long distance numbers compare what RCN price would be if a NYNEX customer's bill totaled those numbers.

SOURCES: RCN Corp. and NYNEX

# NEW YORK POST

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SPORTS EXTRA

THURSDAY, JULY 11, 1986 / Low humidity today, low 80s; partly cloudy tonight, 60-65 / Details, Page 58 \*

50¢

NEW YORK POST THURSDAY, JULY 11, 1986

## Can Liberty Cable challenge Nynex?

By CYNTHIA YESPEMEN

The newest cable company that now plans to challenge Nynex, Liberty Cable, has said last night it will be "bigger and deeper" than its biggest rival.

RCN, the new owner of regional Liberty Cable, is taking on Nynex with a new communications package that will offer local and long-distance telephone service.

RCN, which acquired an 80 percent stake in Liberty in April, plans to roll out its phone service in a package that will also include cable TV and Internet access.

"We've purchased the telephone business. We understand the cable business," said David McQuinn, RCN chairman and chief executive officer.

"We think we have a better product than Nynex."

RCN, which will use the existing fiber-optic network of MFS Communications Co., said it will offer cable-TV and phone rates that are 15 percent lower than those of Nynex and Time Warner, respectively.

MFS now offers telephone service primarily to businesses.

RCN, a subsidiary of Peter Kiewit Bros., opened new offices at 1123 Avenue of the Americas yesterday with a showroom to lure customers.

The company has just 1,000 telephone customers in five Manhattan buildings but plans to spend \$200 million over the next 18 months

### How to switch from Nynex



- If you want RCN service, call its office at (212) 376-8000 and state your address and services desired.
- RCN will tell you if and when your building is scheduled to become part of its fiber-optic network. If it's not already.
- RCN has to get permission from your building management before it can install its cable.
- It now offers service in five Manhattan buildings:
  - Gracie Plaza at East 68th Street and Third Avenue
  - Norwanda Court and 95th Street and Third Avenue
  - 99 Battery Park
  - Windsor Court at 31st Street and Third Avenue
  - The Lucerne at 78th Street and First Avenue
- It is negotiating a deal with Nynex to resell service over its lines, which would give it access to virtually all households here. It hopes the deal will be done by October.

to expand its network.

It is also negotiating a deal with Nynex to buy and resell service over Nynex lines, which it expects to be completed by October.

The deal might seem odd, but Nynex and other Baby Bells are scrambling to give competitive access to their phone networks to get into the \$90 billion U.S. long-distance market.

The Baby Bells are required to demonstrate competition in order to enter the long-distance market.

RCN will also be more of a help than a hindrance to Nynex, said William Vogel, senior vice president at Diller Reed.

"It shows Nynex's chances of being able to point to specific competition in the local area," he said.

Nynex did not return phone calls for comment on RCN.

Yesterday it signed similar agreements with Rochester-based Frontier Corp. and USNY Communications, where headquarters are in

Chicago.

But Vogel predicted that RCN's entry into the telephone market will be slow, with plenty of competition delays including the slow-up in Manhattan headquarters.

"This is not an 18-month project. It's a three-year project at least," Vogel said. "Don't hold your breath if you want an alternative telephone company in your apartment building."

But McQuinn said that he expects RCN to be adding 300 customers a week in Manhattan by year-end and will enter the other boroughs in 1987.

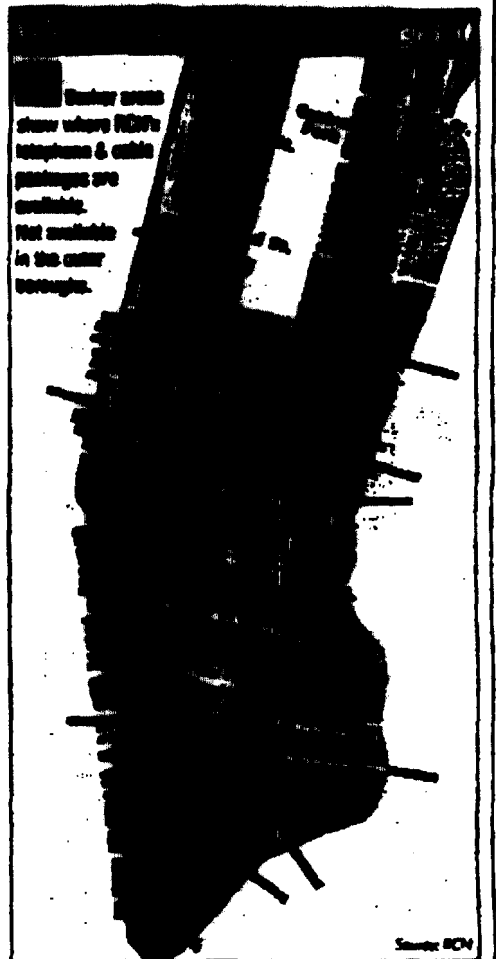
RCN already offers telephone service to Gracie Plaza at 68th Street and Third Avenue; Norwanda Court at 95th Street and Third; 99 Battery Park; Windsor Court at 31st and Third; and The Lucerne at 78th and First Avenue.

A deal with Nynex could allow RCN access to virtually all area households, McQuinn said.

But its rates would be an estimated 30 percent higher than competing through its own network.

MFS Chairman James Crowe said his company has several hundred miles of fiber network in New York and New Jersey. It hopes of being local telephone service and then competing with Nynex in 1987.

"We had that gone head-on three years ago," he said. "I like competing against



Under some show where RCN's telephone & cable packages are available. Not available in the outer boroughs.

Source: RCN

Nynex." Liberty Cable has more than 20,000 customers in approximately 200 buildings, far less than Time Warner's 1.5 million.

McQuinn said RCN's basic cable rates will be \$24.95, compared to Time Warner's \$29.95.

Its basic land-line telephone service rates \$1.95,

vs. the \$2.60 charged by Nynex.

Nynex marketing executive Jack Goldberg predicted the deal with Frontier and USNY. "This is a win for customers, who will benefit from having more choices for phone service, and a win for Nynex, which will benefit from millions of dollars in wholesale revenue," he said.

## TELECOMMUNICATIONS

# READY, SET, DEVOUR?

AT&T wants to grab a third of the regional-calling market in a few years

It's the telecom world's version of a war council. Every week or so, about 15 AT&T executives meet at the company's Basking Ridge (N.J.) headquarters to discuss the latest maneuvers by the company and its opponents in the battle for a \$90 billion prize—local calling. The team, which has dubbed itself "Mission Control," was formed almost two years ago, but the members shifted into high gear in February. That's when the Telecommunications Act of 1996 became law and local calling markets were thrown open to competition.

Now, Mission Control is hopping. Headed by President Alex J. Mandl, the team has laid plans for AT&T to get into local calling in every state by the end of 1997, with trials starting in five states on Sept. 1. AT&T Chairman Robert E. Allen spelled out his ambitions in the new market in a speech to investors on June 11: "We plan to take at least a third of the local market within a few years," he declared. Mandl says that AT&T not only will hit Allen's target but will also break even on local service in two to three years.

**MISSION "IMPLAUSIBLE."** Industry analysts aren't so sure. The only immediate path to local calling is to buy service from a regional phone company and resell it. That makes it unprofitable to offer deep discounts, the easiest way to grab customers from the entrenched former monopolies. "The economics of local resale simply can't yield such large market share gains," says Scott Cleland, an analyst with the Washington Research Group, who terms Allen's goal "implausible."

There is one simple solution: sell local service as a loss leader. Like other phone companies in the deregulated market, AT&T plans to compete by offering a bundle of telecom services—local, long-distance, and cellular calling, plus data and video ser-

vices. AT&T isn't discussing how it will price local service or its bundling plans. But says Shaun P. Gilmore, AT&T's Northeast states president: "The local-services part of a package of services could be discounted." In other words, AT&T can use profits from long-distance or satellite TV to pay for local discounts.

But first AT&T must have local service to offer. To come up with a product, AT&T is developing a complex strategy of reselling, partnering, and building its own facilities—both wired and wireless connections to homes and businesses. At the start, the mix will depend on state and federal regulators, who must rule on a huge range of competitive issues, including guidelines for the wholesale discounts that the local carriers must offer resellers.

At Mission Control, color-coded maps depict AT&T's progress across the country—showing the status of resale negotiations in every state and the discounts determined by state regulators so far. The team also scrutinizes regular progress reports from the seven new regional vice-presidents. Right now, the focus is on California, Georgia, Illinois, Michigan, and Connecticut, where local trials begin on Sept. 1.

**BUGGING THE BELLS:** AT&T discounts will pressure local carriers

Take a shortcut to savings.

A route to savings is through our direct line to you. A route to savings is through our direct line to you. A route to savings is through our direct line to you.



Mission Control is also working on another problem: Finding the right combination of products and pricing to persuade consumers to spend their communications dollars with AT&T. More than the \$12 or so a month that consumers spend on local calling, AT&T wants to grab a big chunk of the \$100 to \$200 a month they spend on electronic communications: local and long-distance calling, cable TV, online services, paging, and wireless.

So the folks in Basking Ridge are poring over reams of data on the buying habits of their 80 million residential customers. AT&T figures it can use the information collected from its long-dis-

tance and wireless calling bills, Universal Card records, and online services to come up with prices, products, service offerings, and advertising schemes targeted at narrow market segments. Customers who use wireless phones to keep track of the kids might be targets for pagers.

Busy travelers might be offered special discounts on credit-card calling. "We will tailor our training, billing, marketing, everything, according to demographic

and geographic patterns," says Joseph P.

Naschio, executive vice-president of AT&T's Consumer & Small Business Div.

Most of all, AT&T will be selling its brand—which the company keeps before the public with a

\$700 million annual ad budget. Executives love to trot out the fact that most surveys show that 30% to 40% of all consumers already believe they get their local-calling service from AT&T, even though the company has been out of that business since the breakup of the Bell system in 1984. "Clearly, AT&T will be our biggest competitor," says Solomon D. Trujillo, President of U S West Communications. "It's the largest company around, one of the largest companies in the world."

"Shame on us." On the other hand, AT&T can't afford missteps that would tarnish its name. It learned that lesson when it started selling its WorldNet Internet service in March. AT&T couldn't keep up with the huge demand for sign-up disks, and customers who subscribed found that there were service outages and constant busy signals on help lines. AT&T is now refocusing its online efforts more narrowly on consumer service (page 120). "Shame on us," says Mandl. "We learned that customers do expect very high quality, and we also need to be realistic about how strong a drawing card the brand is." Because of the Internet blunder, Mandl says AT&T has redoubled its efforts to ensure that its local-service offering is ready to handle huge volumes from the start.

AT&T's enormous size is a plus in other ways. With some \$47 billion in annu-

al revenues—2% times the size of the biggest Bell—AT&T can offer deals the competition will be hard-pressed to match. For a preview, look at what AT&T is doing in the handful of states where it has already entered the competition for in-state toll calls. The company is offering three months of free, unlimited in-state toll calls to Illinois residents. In Connecticut, the deal is 5¢ a minute on all in-state toll calls for a year. AT&T customers in 18 states can also get special deals on the equipment and programming provided by Directv, the Hughes Electronics Corp. satellite-TV service. Then there's that Internet offer that drew such a big response—unlimited access for AT&T customers for \$19.95 a month, or five free hours a month for one year.

## MANDL

He says AT&T will break even on local service in two to three years. But success depends on the local-service deals it strikes with the Baby Bells

For all its big plans, though, AT&T is still at the mercy of the local phone companies. The kind of discount deals it can strike with them for buying local service will be the key to how quickly AT&T can gain market share and whether it can meet Mandl's profit target. The Telecom Act says that the Baby Bells, GTE Corp., and other local carriers must offer their service to potential competitors at the retail rate minus "avoidable costs"—the money they save in marketing, billing, and the like by not handling customers directly.

No surprise, there's a wide gulf between how the local carriers, their wholesale customers, and the state regulators calculate those costs. U S West, for example, proposed a formula in Colorado that actually puts the wholesale price higher than the retail rate, arguing that its local consumer rates now are heavily subsidized. Connecticut regulators came up with a similar interim formula. Most state public service commissions have been more generous—Tennessee and Illinois regulators are recommending 25% and 23% discounts, respectively.

AT&T has one edge in these resale battles—experience. John D. Zeglis, general counsel of AT&T, represented the company in its efforts to keep MCI Communications Corp. out of long distance back in the 1970s. "I was on the other

46% business discount	17% residential discount
20% residential discount	11% business discount
7% business discount	25% business & residential discount
2% business & residential discount	10% business & residential discount
0% business & residential discount	15% business & residential discount

